



Plundering PIRET! Pure Industrial Real Estate Trust

Description

Every now and then, a stock comes up that seems completely reasonably priced. In the case of **Pure Industrial Real Estate Trust** (TSX:AAR.UN), called PIRET for short, we have something even better.

Trading at a small discount to tangible book value, the company is involved in the industrial real estate market. In the past, it has purchased existing properties, while at other times it has developed the properties from scratch for its clients.

Currently, its biggest client, **FedEx Corporation**, accounts for 22% of the total mix. FedEx has been expanding into bigger warehouses in order to handle the increase in volume as more people purchase goods online instead of visiting stores. It can be argued that many traditional companies are reaping large benefits from the increase in online shopping.

Well diversified across the country, the company is now expanding south of the border, diversifying away from the Canada-only approach which has served it well for a number of years. The good news is, the company will not be spending its own Canadian dollars to fund the entirety of any expansion project.

Going into the U.S., the company will put some of its own capital to work (converting Canadian to U.S. dollars) and will borrow U.S. dollars for the rest.

Why is this an added bonus?

At an exchange rate of approximately \$1.35 Canadian dollars per U.S. dollar, as an investor, we want to look for companies which are borrowing money in U.S. dollars, taking in rents in U.S. dollars, and earning more profit in U.S. dollars. PIRET reports earnings per share in Canadian dollars. The high U.S. dollar will offer a boost to investors.

With an excellent track record of producing consistent cash flows, the payouts as a percentage of adjusted funds from operations, a measure of cash available for distribution, have been 98% for 2014, 89.8% for 2015, and 85.9% for the first three quarters of 2016. The distributions are currently \$0.026

per unit per month and have been steady since 2013. The upside is the small share buyback undertaken by company management has kept the share count relatively stable year over year (excluding the secondary offerings).

In order to expand, the company has issued shares a number of times—the latest at a price of \$5.05 per unit in June 2016. Since June, the unit price has risen to \$5.25 and continues to offer a solid long-term performance.

With a solid Canadian base of investments—currently 82 properties—it is only a matter of time before this REIT becomes a true North American REIT. With 13 properties in the United States at the end of 2015, the number will increase in the coming years. Management has been very clear about their intentions to enter this market.

What remains to be seen is the total long-term returns that investors will receive by buying at such a great price—it could be considered a steal at these levels.

CATEGORY

1. Dividend Stocks
2. Investing

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Author

ryangoldsman

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